

Repo Rate, Meaning, Importance, Impact, Current Rate, Latest News

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Repo Rate News

The Reserve Bank of India (RBI) conducted its first **Monetary Policy Committee (MPC)** meeting of 2026, during which RBI Governor Sanjay Malhotra announced that the key policy rate, known as the repo rate, will remain **unchanged at 5.25%**. The **inflation** for FY 2025-26 is at **2.1%**.

Basis Points Meaning

- Basis points (bps) are a standard financial unit used to measure small changes in interest rates, yields, or other percentage-based values.
- They provide precision when expressing movements in financial indicators. For example, a 25 bps hike means a 0.25% increase.
- Basis points are widely used to describe changes in interest rates on loans, savings, bonds, and other financial instruments, ensuring clarity where even minor shifts matter.

RBI Repo Rate

- The repo rate is the interest rate at which the **RBI** lends short-term funds to commercial banks against government securities.
- It serves as a primary tool for the RBI to regulate liquidity, control inflation, and influence overall economic activity.
- By adjusting the repo rate, RBI can either encourage banks to borrow more (by lowering the rate) or discourage borrowing (by raising the rate), thus influencing the money supply in the economy.
- The reverse repo rate is the interest rate at which the central bank (such as the RBI) borrows surplus funds from commercial banks, thereby absorbing excess liquidity from the system.
 - It is the opposite of the repo rate, where commercial banks borrow from the central bank.

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Impact of RBI Repo Rate Cut

- **Lower Borrowing Costs:** **Commercial banks** benefit from reduced borrowing costs, enabling them to offer loans at more competitive interest rates.
- **Fixed Deposit (FD) Interest Rates:** Banks likely lower FD rates after a repo rate cut, as their own cost of funds decreases. This means new FDs may offer lower returns, while existing FDs remain unaffected until maturity.
- **Enhanced Credit Flow:** Lower interest rates encourage increased borrowing by businesses and consumers, stimulating investment and consumption.
- **Boost to Real Estate and Infrastructure:** Due to more affordable financing options, sectors like real estate and infrastructure may see heightened activity.
- **Support Amid Global Challenges:** The RBI's accommodative stance aims to bolster the Indian economy against global uncertainties, such as increased U.S. tariffs impacting exports.

Source: <https://vajiramandravi.com/current-affairs/repo-rate/>

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